DESCRIPTION OF H.R. 1884

RELATING TO

DEDUCTION FOR USE OF AUTOMOBILES

BY RURAL LETTER CARRIERS

Scheduled for a Hearing

Before the

SUBCOMMITTEE ON SELECT REVENUE MEASURES

of the

COMMITTEE ON WAYS AND MEANS

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

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INTRODUCTION

The Subcommittee on Select Revenue Measures of the Committee on Ways and Means has scheduled a public hearing on June 10, 1985, on H.R. 1884 (introduced by Messrs. Flippo, Jenkins, Campbell, Fowler, Anthony, Matsui, Mrs. Kennelly, Messrs. Downey of New York, Jones of Oklahoma, Rangel, Duncan, Pickle, McGrath, and Jacobs). H.R. 1884 would provide rules for computing the amount of the deduction allowed to rural letter carriers for use of their automobiles in the course of their employment.

This document,[1] prepared in connection with the Subcommittee hearing, provides a description of present law and of the provisions of the bill.

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[1] This document may be cited as follows: Joint Committee on Taxation, Description of H.R. 1884 Relating to Deduction for Use of Automobiles by Rural Letter Carriers (JCX-7-85), June 7, 1985.

DESCRIPTION OF THE BILL

Present Law

Taxpayers are generally permitted to deduct business expenses, such as automobile travel (other than commuting), necessary to perform their jobs. Generally, taxpayers must keep records of these expenses in order to justify these deductions. The Internal Revenue Code gives the Secretary of the Treasury the authority to provide standard mileage rates that taxpayers can elect to use in lieu of keeping records of actual expenses for the business use of their automobiles (Code sec. 274(d)). For 1985, the standard mileage rate is 20.5 cents per mile for each business mile up to 15,000 in each of the first 4 years the automobile is in service; for any additional business miles, the standard mileage rate is 11 cents per mile. The rate drops in this manner primarily because it is assumed that the automobile has fully depreciated after 4 years and 60,000 miles of business use.

If the taxpayer does not choose to use the standard mileage rate, the taxpayer must keep records of expenses; the taxpayer may also claim depreciation deductions for the automobile. If more than 50 percent of the use of the automobile is in the taxpayer's trade or business, the taxpayer may depreciate the automobile using ACRS depreciation (Code sec. 280F(b)). Thus, an automobile could be depreciated over 3 years. Additionally, the taxpayer may claim an investment tax credit. If, however, 50 percent or less of the use of the automobile is in the taxpayer's trade or business, the taxpayer must depreciate the automobile on a straight-line basis over the automobile's earnings and profits life. This is 5 years for an automobile. Additionally, the taxpayer may not claim any investment tax credit.

Generally, a taxpayer may deduct these expenses on the taxpayer's tax return. In addition, a taxpayer generally must report as income any reimbursement of expenses. If, however, the reimbursement equals the expenses, the IRS permits the taxpayer not to report the reimbursement as income so long as the taxpayer does not deduct the expenses.

Explanation of Provisions

The bill would provide that any employee of the United States Postal Service who performs services involving the collection and delivery of mail on a rural mail route can use a standard mileage rate that is 150 percent of the standard mileage rate otherwise applicable to automobiles that have not been fully depreciated. This 150-percent rate would apply to all miles the automobile is used to perform these

services, whether or not the total exceeds 15,000 miles per year or 60,000 miles over 4 years. Thus, if the general standard mileage rate is 20.5 cents per mile, 150 percent of that rate would be 30.75 cents per mile. The bill would provide that an employee may not utilize the 150-percent rate for an automobile if the employee claimed the investment tax credit or depreciation deductions for that automobile.

The bill also would make inapplicable to these employees (if they do not use the standard mileage rate) the provision of the Code requiring that more than 50 percent of the use of the automobile be in the employee's trade or business in order to claim accelerated depreciation and the investment tax credit on the business use of the automobile. Thus, for example, an employee whose use of the automobile involving the collection and delivery of mail on a rural mail route is 20 percent of the total use of the automobile could, under this bill, claim 20 percent of the ACRS depreciation and 20 percent of the investment tax credit applicable to that automobile.

These two provisions would be effective for taxable years beginning after December 31, 1984.

The bill also provides that, for taxable years beginning before January 1, 1985, these employees may deduct as their expenses for this business use of their automobiles the amount received by these employees as equipment maintenance allowances from the United States Postal Service, except that these employees shall be permitted to compute the amount allowable as a deduction in accordance with the form entitled "Worksheet for Use of Rural Letter Carrier in Reporting Equipment Allowance and Claiming Transportation Expense Deduction" that was approved by the Internal Revenue Service in 1956 after being prepared by the National Rural Letter Carriers' Association. Thus, under this provision, an employee who was reimbursed by the Postal Service for those taxable years at 150 percent of the standard mileage rate would not have to report that reimbursement as income or claim the deduction on the employee's income tax return, because the deduction would be equal to the reimbursement. In addition, assessments of additional tax for those taxable years attributable to the reimbursement for business usage of the automobile exceeding expenses (where the IRS has not computed expenses in accordance with this Worksheet) would be terminated. Taxable years with respect to which the statute of limitations has expired would not be reopened.